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Muni Feeding Frenzy Seen Lasting as New Sales Lag Investor Cash.

- **One-third of outstanding debt will be paid off by end of 2026**
- **Investors already face 'a very challenging muni environment'**

Municipal-fund managers awash with cash are struggling to find bonds to buy, a situation that may persist for the next few years if new issues continue to fall short of the demand.

About 21% of outstanding tax-exempt debt will mature or be called by the end of 2024, according to data compiled by Bloomberg. That rises to 31% by the end of 2026. The figures are higher than those seen historically and exacerbate the challenge bondholders have in reinvesting their payments, said Matt Fabian, partner at Municipal Market Analytics. Meanwhile, new dollars continue to flow apace into mutual funds.

So far this year, issuers have sold $289 billion in long-term municipal debt, higher than the $267 billion over the same period last year, according to data compiled by Bloomberg. While the federal infrastructure bill in the works may drive more sales of new debt, it's unclear if it will be "enough to offset the giant sucking sound of the pending maturity schedule," Fabian said.

"We need to see a material increase in new money projects, if only for the market to stand still," he said.

The dynamic underscores the strength of the municipal-bond market, which is notching positive returns even as several other corners of the fixed-income universe are down for the year. Investors are shifting into the tax haven as President Joe Biden's administration pushes to raise income taxes on the highest earners. Meanwhile, Biden's stimulus packages easing the impact of the coronavirus pandemic have boosted the credit quality of local government borrowers such as cities and transit systems.

Investors have plowed a record amount into municipal-bond funds for the first seven months of the year, totaling more than $69 billion, according to Refinitiv Lipper US Fund Flows data. The wall of cash has led Nuveen to turn new investors away from its high-yield municipal bond fund, the market's biggest.

The demand from mutual funds and those seeking to redeploy their principal payments will likely keep spreads at tight spreads, Fabian said.

"This is a context in which spreads are not going to widen absent some kind of surprise," he said. "We need some big city to file for bankruptcy, or some kind of major reversal of revenue trends."

Meanwhile, portfolio managers are left scrambling to get a piece of new deals, which receive so many orders that underwriters are able to lower yields that the buyers feel compelled to accept.

"What starts off looking attractive, by the time it comes to you, it's okay," said Sweta Singh, portfolio

manager at City Different Holdings LP. “It is a very challenging muni environment, for sure.”

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By Romy Varghese

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